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SUBJECT: IMF AND WORLD BANK REPS SEE BLEAK
ECONOMY FOR MOLDOVA IN 2009

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11. (SBU) SUMMARY: At a donors' meeting on June 25, IMF Resident Representative, Johan Mathisen, and World Bank Country Manager, Melanie Marlett, assessed the current status of the Moldovan economy as bleak and reviewed possible measures to assist Moldova. The IMF projects a GDP contraction of nine percent. Imports and remittances, the lifeline of the Moldovan economy, have dropped substantially. Moldova can do little to insulate itself from the economic crisis in the region. The ruling Party of Communists of the Republic of Moldova (PCRM) is unwilling to mitigate the effects of the economic crisis in advance of parliamentary elections on July 29. While the World Bank could not provide budget support without an IMF agreement, the bank is considering increasing its support to several existing programs to help Moldova. END SUMMARY

GOM UNABLE TO ENGAGE WITH IMF MISSION

12. (SBU) An IMF mission arrived in Moldova on May 28 for two weeks of negotiations with the Government of Moldova (GOM) on a USD 550 million 18-month IMF program. The failure of the recently elected parliament to choose a new president in two rounds of voting and the subsequent dissolution of the parliament made it very difficult for the mission to work with government authorities. Many government officials were also MPs engaged in the political drama unfolding in the parliament. The ruling PCRM caretaker government was concerned primarily with political developments and the need to set the date for new elections. The mission departed on June 8, planning to return in the fall once a new parliament and government were in place.

GOM TAKES NO ACTION

13. (SBU) The caretaker government is unwilling to take emergency measures such as delaying salary and pension increases to deal with the worsening state budget and economic crisis in Moldova. It

doesn't want to draw more attention to the issue prior to elections. The reluctance of the GOM to take action until after new parliamentary elections will lead to further deterioration of the economy. Mathisen said the IMF had revised its projection that GDP would drop from six to nine percent. He added that it could decline even more.

EXPORTS SHOW SOME RESILIENCE

14. (SBU) The IMF resident representative explained that exports were actually doing rather well in the current economic crisis, having dropped only 30 percent. Moldovan exports suffered not only from the impact of the economic crisis on the region but also from the strong national currency, the Moldovan leu (MDL). All other currencies in the region had dropped significantly in the past six months and then recovered slightly. The continued strength of the MDL had made Moldovan products increasingly more expensive for customers in neighboring countries, as their national currencies lost value. If the MDL had also declined to the same degree as other currencies in the region, the prices of Moldovan goods would have remained more or less the same in other countries. The National Bank of Moldova had intervened in the currency markets over the past six months to support the MDL. Mathisen noted that the GOM derived approximately 70 percent of its revenues from taxes levied on imports. The

government was intent on maintaining a strong currency in order to enable consumption and keep imports (and duties on imports) flowing.

15. (SBU) The major reason for a degree of resilience in the export market resided in the record harvest of 2008. Moldovan farmers had exported many of their commodities from 2008 in the first half of 2009. The projections for the 2009 harvest were for a 30 percent drop. Lack of available credit was another problem for the economy. Persistent rumors of the MDL's devaluation before and after the April 5 elections had discouraged businesses from seeking loans, although interest rates had dropped from 25 percent to 20 percent. Inflation was currently minus 1.6 percent for the year which differs from other countries in the region where inflation is running from five to ten percent. The phenomenon of deflation in Moldova combined with inflation in neighboring countries made Moldovan products more expensive. Despite the deflation/inflation development and the strong MDL, exports had not declined as sharply as imports and remittances. As a result of exports dropping less than imports, Moldova's trade deficit had decreased.

MOLDOVA AND THE REGION IN CRISIS

16. (SBU) The depth of the economic crisis in Moldova will depend largely on the seriousness of the recession in the region. The IMF projects GDP for the region to drop slightly more than in Moldova. Moldova is highly dependent on Russia and Ukraine as export markets and can only hope to sell more goods as the economies in those countries improve. Russia is also the single largest destination country for Moldovan migrants. An improving Russian economy will mean increasing remittance flows to Moldova. Moldova will remain in a recession longer than neighboring countries because its economy has been driven by remittances and investments. These elements will likely be

the last to recover from the crisis.

WORLD BANK CONSIDERS ASSISTANCE OPTIONS

17. (SBU) Saying that the country's state budget was "in a dire situation," World Bank Country Manager, Melanie Marlett, mentioned three options she and her colleagues were considering to assist Moldova. The World Bank could not provide any cash to cover the government's expenditures without an IMF agreement, but the country manager explained that ongoing World Bank programs that could be enhanced to help Moldova. Marlett said the World Bank was reviewing aid in the areas of employment generation, financial sector and social protection. In employment generation the World Bank was looking for ways to support more community activities through its Moldovan Social Investment Fund and to restructure its roads rehabilitation project. A component of the roads rehabilitation project had been cancelled due to misappropriation by the GOM, but the World Bank was searching for a mechanism to reset that component. In the financial sector the World Bank was looking at possibilities to provide funding to support exports and supplement the Rural Investment Services Project. Finally, in the area of social protection the World Bank hoped to scale up its health and social assistance programs.

COMMENT

18. (SBU) The GOM's current focus is the July 29 elections. As long as Moldova does not have an IMF program, doors to assistance from the World Bank, the European Commission, Paris Club and many bilateral donors will remain closed. Acting President Vladimir Voronin traveled to Moscow on June 22 where Russian President Vladimir Putin

announced a USD 500 million loan to Moldova. Voronin himself noted that the first tranche would not arrive before the end of 2009 and does nothing to assist the economy now. Many observers considered the loan a campaign ploy and are doubtful any of the funds will ever make their way to Moldova. The current political crisis paired with the economic crisis means Moldova will likely suffer longer and recover more slowly than its neighbors.

CHAUDHRY